

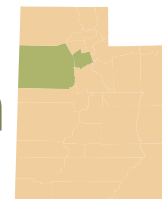
spring 2013 **local insights** wasatchfrontsouth

An economic and labor market analysis of the Wasatch Front South Area

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Recent Movements in Labor Force Participation



BY JIM ROBSON, ECONOMIST

The great recession resulted in a number of severe effects, such as higher unemployment, lost jobs and lower incomes. One noticeable labor market result has been the largest four-year drop in the labor force participation rate (LFPR) recorded nationally since the 1940s. LFPR is simply the proportion of the working age population who are employed or jobless and actively looking for work.

as a result of the recent severe recession and slow recovery has been labor force participation. Other than the unemployment rate and the change in employment, no other measure of the labor market has received more interest of late.

The labor force participation rate (LFPR), as defined by the U.S. Bureau of Labor, is the percentage of the “civilian noninstitutional working age population” that is part of the labor force. The population of working age is everyone 16 and older. The labor force consists of those who are of working age who are employed or who are unemployed

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The drop in the LFPR in the U.S. since the start of the recession was due to the ongoing demographic trends exhibited before the recession and the adverse effects of the recession and slow recovery.

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The Wasatch Front South labor market improved during the spring and summer of 2012 with employment growth averaging 3.4 percent for the year compared to 2011.

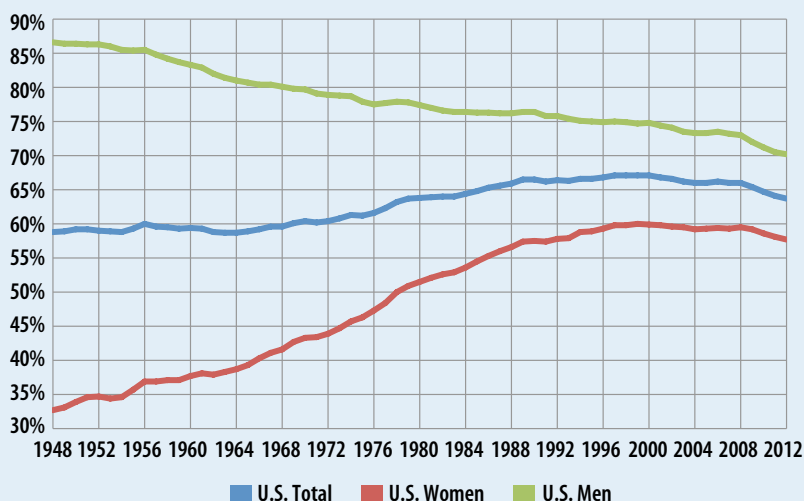
Initial Claims as an Economic Indicator 8

Unemployment Insurance initial claims data from the past three years point toward an improving economy.

Labor Force Participation

One of the basic national labor market statistics that has moved significantly

Figure 1: U.S. Labor Force Participation Rate 1948 to 2012



Source: U.S. Bureau of Labor Statistics, Current Population Survey





Recent Movements in Labor Force Participation (continued)

and actively seeking work within the last four weeks. All other individuals of working age are not in the labor force.

In 2011, the annual average for the LFPR was 64.1 percent, that is 64.1 percent of the estimated 239.6 million civilian noninstitutionalized Americans 16 and older, or 153.6 million persons, were employed or unemployed (actively seeking work in the last four weeks). The other 35.9 percent, or 86 million, were not in the labor force. For the State of Utah in 2011, the LFPR was 67.0 percent, the estimated labor force of 1.37 million out of the total 2.04 million working-age population.

In Utah, a higher percentage of the working age population (67.0 percent) is in the labor force than the 64.1 percent nationally. The major explanation is Utah's very youthful population with a median age of 29.6 years compared to 37.3 years for the United States. At older ages, participation in the labor force declines. In 2011, 9.2 percent of the population in Utah was 65 years and older compared to 13.3 percent nationally.

As defined, the labor force is composed of the employed and unemployed. The unemployment rate is the percentage of the labor force unemployed, those civilian noninstitutionalized persons over the age of 16 who have actively been seeking work in the last four weeks who do not have a job. In 2011, the average unemployment rate was 7.0 percent in Utah compared to 8.9 percent nationally.

Long-Run Trends in U.S. Labor Force Participation

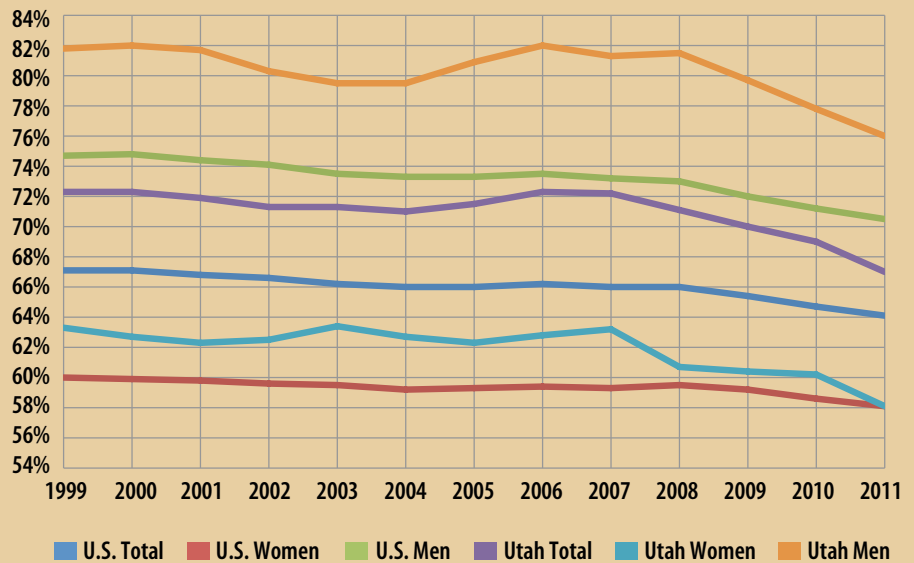
The LFPR has been consistently tracked in the U.S. since 1948, and over these six-plus decades there are long-run trends that give us insight into how the LFPR has responded over the last five years with the recession and recovery in the labor market.

This long-run history can be divided into three distinct periods. From 1948 to 1965 was a time of stable participation in the labor force. In 1948, the LFPR was 58.8 percent and 58.9 percent in 1965. Over these 18 years, the LFPR fluctuated within

a narrow range, reaching a high of 60.0 in one year: 1955. Then, from 1966 to 2000, the LFPR increased from the annual average of 58.8 in 1965 to a peak of 67.1 percent in 1997 and holding at this rate on average each year through 2000. Finally, since 2000 the LFPR has dropped from its peak of 67.1, declining gradually at first to 66.0 by 2004 where it remained through 2008, and then descending rapidly to reach 63.7 on average in 2012.

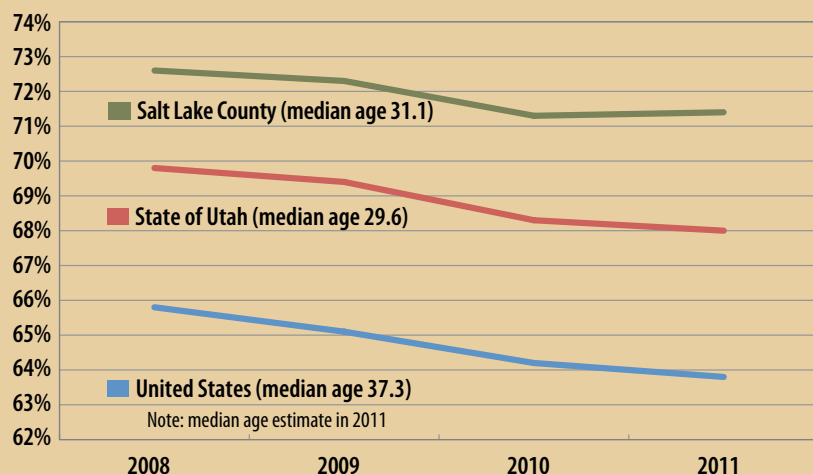
The increase in the participation rate from the mid-1960s until 2000 can be largely explained by two intertwined developments, one demographic and the other cultural. The baby boomers, the 75.8 million people born from 1948 to 1964, were between the ages of 1 to 19 in 1965 and were just entering the labor force. By the year 2000, boomers were between the ages of 36 to 54 and fully incorporated into the labor force — in their prime working years, when their LFPR would be at the highest level. The second major cause has been the movement of working-age women into the labor force

Figure 2: U.S. and Utah Labor Force Participation Rate by Gender, 1999–2011



Source: U.S. Bureau of Labor Statistics, Current Population Survey

Figure 3: Labor Force Participation Rates, 2008–2011



Source: American Community Survey, One-year Estimates

in greater numbers, from 39.3 percent in 1965 to 60.0 percent in 1999. During this same period the LFPR of men declined gradually from 80.7 in 1965 to 74.7 in 1999. The decline in the U.S. LFPR since 2000 has primarily been related to two factors as well. First, the baby boomers have started aging from their prime working years, ending at age 54, and moving into their older years and retirement. The first baby boomers reached age 65 in 2011. It should be noted that as people age from 55 to the end of life, on average, their attachment to the labor market wanes as retirement, disability and other health issues begin to manifest.

The second factor explaining the LFPR dropping since 2000 has been a decline in the LFPR of younger working-age persons between the ages of 16 and 24. Instead of being prime working years, these are more prevalently prime years for education and training (human capital development). Many in the 16 to 24 age group who are in the labor force do so on a part-time basis while participating

in education and training programs. In 2000, the LFPR of 16–24-year-olds was 65.8 percent, dropping to 59.4 by 2007, prior to the onset of the Great Recession, as school enrollment was noticeably increasing.

These major trends — the baby boomers entering the labor force, reaching their prime working years and aging into retirement; women entering the labor force in increasing numbers since WWII to a peak in 1999; and noticeably less participation of teenagers and young adults since 2000 — are major demographic and cultural factors also exhibited in Utah's labor markets and among its regional and county economies.

As noted earlier, Utah has a distinctly younger average population than the nation, but these three major national influences are clearly manifest within Utah and its counties to a lesser or greater degree, depending on the local demographic makeup and the local cultural environment.

Labor Force Participation and the Great Recession

The recent recession started in December 2007 and lasted through June 2009. Because this recession was characterized by a housing collapse, a financial meltdown in the fall of 2008, and large consumer, business and government debt, the recession was severe: large job losses, high unemployment and a painfully slow recovery. Without doubt, the Great Recession represents the worst sustained economic difficulties since the Great Depression of the 1930s.

The U.S. LFPR has declined from 66.0 percent in 2007 and 2008, dropping to 63.7 percent by 2012. This is the largest four-year drop recorded since available records allow such a comparison — 1948. For Utah, the LFPR was 72.2 in 2007 and has declined to 66.6 in 2012.

The recent drops in the LFPR have partially been the result of the current economic difficulties. In addition to the expected declines from the aging of baby boomers, the recession with high unemployment and reduced job opportunities has also reduced the LFPR. The economic difficulties of recent years have resulted in unemployed people leaving the labor force as they stopped looking for work because they feel they can't find a job. In addition, persons of all ages enter or continue in training and education programs instead of being in the labor force, while others seek and qualify for disability status — most often a permanent departure from the labor force. Then there are those who just drop out of the labor market until conditions improve. On the other hand, there are also offsetting



Recent Movements in Labor Force Participation (continued)

increases in participation from household members who feel the need to support household income when another member is unemployed or underemployed.

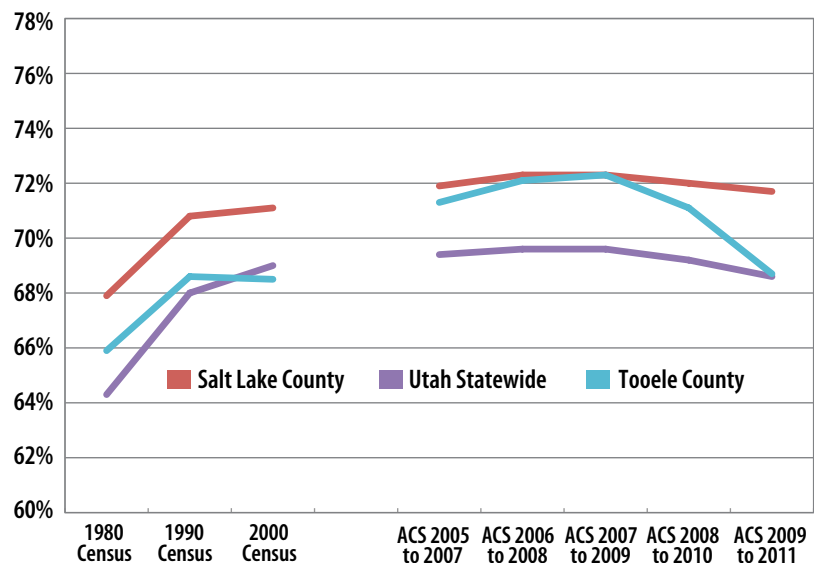
A study by Willem Van Zandweghe at the Federal Reserve Bank of Kansas City has concluded that about half of the drop in the LFPR in the U.S. since the start of the recession was due to the ongoing demographic trends exhibited before the recession and half due to the adverse effects of the recession and slow recovery.

Statewide and Large County LFPR from the ACS

All of these labor force statistics come from the monthly national Current Population Survey (CPS) and provide official BLS LFPRs for the nation and states. The best labor force measures for counties come from either the American Community Survey (ACS) that began in 1995 or from each decennial census.

Large political jurisdictions with at least 65,000 inhabitants are provided with annual estimates of labor market statistics, including the LFPR as well as a host of other demographic, social and economic statistics. Salt Lake County, with over one million inhabitants, has single-year ACS estimates.

Figure 4: Labor Force Participation Rates—Decennial Census and ACS 3-Year Moving Average



Source: U.S. Census Bureau, Decennial Census and American Community

LFPR estimates during and after the recession from 2008 to 2011 show the expected declining rate. Figure 3 shows the decline with comparison data from the same ACS survey for the U.S., State of Utah and Salt Lake County. The drop in ACS-produced statistics is more subdued than the official BLS statistics cited earlier from the CPS. These two surveys use very different methodologies. The CPS is very detailed and conducted by professional survey interviewers. The ACS asks fewer, simpler questions in a self-administering mail out/mail back survey.

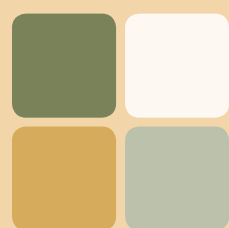
Of further interest is that those areas with a lower median age show less of an LFPR drop over these four years. This may be the result of the baby boom generation having less of an influence within younger Utah populations than is found nationally with a much higher median age.

Decennial Census and Three-Year LFPRs for Counties

Finally, Decennial Census numbers and three-year moving average estimates can be used to see if we can match some of the national and Utah statewide trends to Salt Lake and Tooele Counties. Figure 4 provides this information.

The Decennial Census LFPRs in 1980, 1990 and 2000 do support the BLS long-run national and Utah trends; that is, LFPRs increasing to peak levels around 2000. When we look at the ACS three-year estimates that are available for counties with populations greater than 25,000 inhabitants we see LFPR dropping a little for Utah statewide and Salt Lake County.

The large demographic/cultural trends that explain the drop in the national LFPR are also clearly manifest in Utah when measured by the Current Population Survey using BLS methodologies. Wasatch Front South county level Decennial Census data support these trends to 2000 as well. The new American Community Survey (which uses a similar methodology to that of the Decennial Census) one-year estimates from 2008 to 2011 illustrate declining labor force participation as expected. However, using results from the multi-year ACS estimates that require averaging results across multiple years to increase the sample size provides additional, even if somewhat weak support, to the demographic (structural trends) and the business cycle — recession/recovery (cyclical trends) of an expected drop in labor force participation among Salt Lake and Tooele counties.



Current State of the Economy

in Wasatch Front South

BY JIM ROBSON, ECONOMIST

The Wasatch Front South labor market improved during the spring and summer of 2012 with employment growth averaging 3.4 percent for the year compared to 2011. The region's unemployment rate averaged 5.2 percent in 2012. The economy should continue to expand through 2013 with healthy job growth and lower unemployment. Labor market conditions have mended considerably over the past two years. Continuing job growth occurred across all major industry groups with the exception of federal government employment, which continues to shed jobs. An improving labor market will continue to characterize economic conditions into 2013.

Salt Lake County

Employment opportunities have been expanding in most of the major industrial sectors with average employment growth of 3.5 percent in 2012. The estimated 20,356 new jobs increased total employment to 603,307, surpassing the previous record of 602,859 in 2008. The most new jobs are being created in trade, professional/business services, leisure/hospitality services and manufacturing.

Of course, the construction industry suffered the most significant job losses during the recession. It has added jobs throughout 2012 compared to the levels recorded in 2011. Admittedly, while construction is growing, it is expanding from a level of total employment that is far below the level reached before the recession.

Figure 5: Wasatch Front South Nonfarm Payroll Employment 2011–2013

Super Sector Industry	Annual Average Jobs			Change in Jobs from Prior Year			Percent Change in Jobs		
	Actual 2011	Estimate 2012	Forecast 2013	Actual 2011	Estimate 2012	Forecast 2013	Actual 2011	Estimate 2012	Forecast 2013
Total Nonfarm Payroll Jobs	598,928	619,203	636,283	12,028	20,275	17,081	2.0%	3.4%	2.8%
Mining	3,299	3,697	3,946	594	398	249	22.0%	12.1%	6.7%
Construction	30,194	31,252	32,292	(110)	1,058	1,040	-0.4%	3.5%	3.3%
Manufacturing	52,833	54,250	55,369	1,139	1,417	1,119	2.2%	2.7%	2.1%
TTWU*	121,061	126,891	131,372	1,916	5,830	4,481	1.6%	4.8%	3.5%
Information	16,468	17,499	17,575	(35)	1,032	76	-0.2%	6.3%	0.4%
Financial Activities	46,449	47,013	48,334	821	564	1,321	1.8%	1.2%	2.8%
Professional/Business Svcs.	98,193	102,391	106,247	4,197	4,199	3,856	4.5%	4.3%	3.8%
Ed/Health Care Services**	67,768	69,392	71,227	1,206	1,624	1,835	1.8%	2.4%	2.6%
Leisure and Hospitality	48,656	50,794	52,139	709	2,138	1,345	1.5%	4.4%	2.6%
Other Private Services	18,247	18,865	19,199	135	618	333	0.7%	3.4%	1.8%
Federal Government	12,478	11,957	11,812	(376)	(520)	(145)	-2.9%	-4.2%	-1.2%
State Government***	38,521	39,720	40,606	719	1,200	885	1.9%	3.1%	2.2%
Local Government***	44,762	45,480	46,190	1,113	718	709	2.6%	1.6%	1.6%

*Trade (Wholesale & Retail)/Transportation/Warehousing/Utilities

** Private Education/Health Care/Social Services

*** State government includes higher education and local government includes public education

Source: Department of Workforce Services



Current State of the Economy (continued)

In 2012, construction jobs had grown by 1,000, or 3.4 percent above the level recorded in 2011.

Of 17 major industrial groups, only one lost jobs from 2011 to 2012: federal government employment has declined by an estimated 4.7 percent, a drop of 355 jobs.

Unemployment

The seasonally adjusted unemployment rate in Salt Lake County peaked in November 2009 at 8.1 percent as a result of the recession. Over the past three years, the unemployment rate has declined gradually and at times paused briefly and then continued its downward trend. By December 2012 it had dropped below 5.2 percent, with about 29,000 residents unemployed. Initial claims for unemployment benefits, while still above the incredibly low levels seen prior to the recession, are at their lowest level in four years.

The stabilization, improvement and expansion of the Salt Lake County labor market since mid-year 2010 have been reflected in gross taxable sales figures. For ten consecutive quarters, second quarter 2010 through third quarter 2012, Salt Lake County year-over sales tax collections have been positive. The third quarter 2012 year-over taxable sales were up by 8.7 percent.

Construction Activity

Construction has been the hardest hit industry with the most significant job losses. Salt Lake County construction activity hit bottom in 2010. While it is true that construction employment levels did not increase during 2011, overall measures of activity were off the bottom. In 2011, housing unit permits and valuations were up 9.7 percent and 20.7 percent,

respectively. Admittedly these were not increases in single-family homes but in multi-family dwellings. In 2011, non-residential permitted valuations were up by 103 percent, and total construction valuations were up by 49.9 percent over 2010 levels.

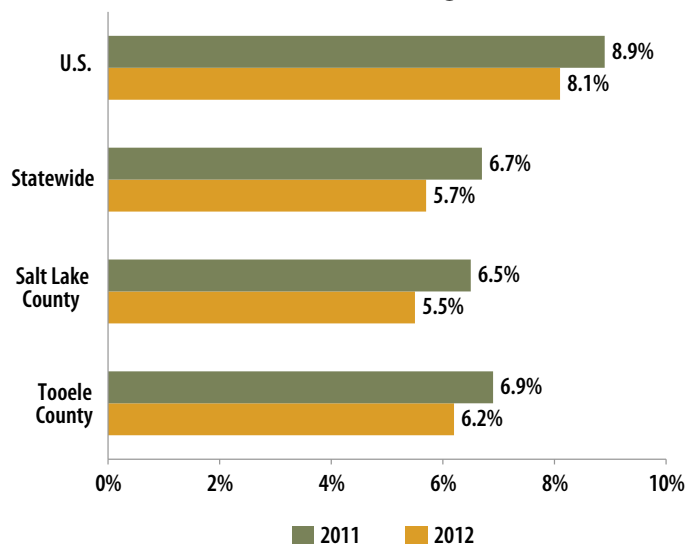
From January through November of 2012, overall construction activity, as measured by total permitted value of construction compared to the same months a year ago, is up by 4.9 percent. As noted earlier, construction employment has actually increased in 2012 in Salt Lake County. This can be attributed to an increase in new dwelling permits of 14.3 percent with 2,522 permits through November 2012 year-to-date as compared to 2,206 for the same

period in 2011. The valuation of the new dwelling permits is 26.4 percent higher than the valuation last year.

Tooele County

As was the case along most of the Wasatch Front, year-over job growth returned to Tooele County in the last six months of 2010. In 2011 Tooele County averaged employment gains of 366 new jobs, or growth of 2.3 percent. This growth was led by new manufacturing and constructions jobs of 197 and 125, respectively. During 2012, overall employment receded by 81 jobs, a decline of 0.5 percent as job gains in other industries were overwhelmed by significant reductions in professional/business services (-271 jobs) and the

Figure 6: Unemployment Rate Comparison with Wasatch Front South Counties, Annual Average 2011–2012



Source: Department of Workforce Services

federal government (-165 jobs). Part of these losses are due to the ongoing closure of the Deseret Chemical Depot.

The five industries that added the most jobs in 2012 were retail trade (101), accommodation/food services (62), construction (59), transportation/warehousing (53) and manufacturing (49).

Economic Sluggishness

The Deseret Chemical Depot (DCD) finished its assignment, the destruction of the largest stockpile of U.S. chemical weapons. This does not mean that this facility is closed. It will take over two years to decommission the facility and close it down. However, related job losses have occurred in 2012 and will continue at various stages throughout 2013 and 2014.

Direct job reductions will impact waste management, professional/scientific/technical services and federal defense industries. The loss of about 1,000 direct jobs, with associated declines in incomes and expenditures will result in reductions of about 300 to 500 additional jobs throughout Tooele County and the larger regional economy.

The current economic sluggishness in Tooele County is the result of several factors: the past recession, the closing of DCD, federal job cuts, reductions in the waste management services industry, the new county jail operating significantly below expectations and county government budget and personnel cuts.

The labor market outlook for Tooele County in the next few years could be contraction. Business and government leaders will be working hard to generate new and compensating economic activities and growth. Tooele is, of course, part of the

greater Salt Lake Metropolitan area and has access to this wider labor market. Between 40 to 50 percent of county residents with payroll jobs commute to the Salt Lake area for employment. The current relative strength in the Salt Lake County labor market should provide support to Tooele County residents during this period of transition.

The current difficulties in the Tooele County economy are reflected in a somewhat higher unemployment rate, averaging 6.2 percent during 2012 compared to the 5.5 percent rate in Salt Lake County.

With a little luck and some increasing strength from growing industries, Tooele County may actually add to employment in 2013 with forecasted growth of 202 jobs, or 1.3 percent growth.

Outlook

Overall for Wasatch Front South (Salt Lake and Tooele Counties), continuing job growth and a gradually improving labor market will characterize economic conditions during 2013 with job growth of about 2.8 percent. Enough employment growth was generated in 2012 to bring the estimated average regional nonfarm payroll job total to 619,203, above the previous high of 618,385 achieved in 2008.

The improving labor market should continue to gradually bring down the unemployment rate to under 5 percent in 2013. Because of the considerable slack created in the labor market during the recession and subsequent slow recovery, the unemployment rate will likely continue to range between 4.5 and 5.3 percent in 2013.

The improving labor market should continue to gradually bring down the unemployment rate.



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Initial Claims as an Economic Indicator

BY MELAUNI JENSEN, LMI ANALYST

The Unemployment Insurance Benefits program in Utah is administered by the Department of Workforce Services. This program was started to help safeguard the economy against short-term losses by aiding individuals who have lost their income because of a layoff. Through this program, DWS collects contributions, determines eligibility, takes claims and pays benefits to unemployed workers. When individuals find themselves out of work through no fault of their own or have their hours reduced, they can file what is called an initial claim, allowing them to become eligible for a minimum of 10 weeks and a maximum of 26 weeks of regular benefits. Not all claimants will use the entire time, as they may be able to find a new position with another industry or employer. To be eligible for these benefits, unemployed workers must meet certain criteria as defined by DWS, and an individual will not be eligible if they voluntarily leave their job. If a claimant has been deemed eligible, they will receive an amount based on their earnings over a recent 52-week period. Utah continues to update its UI program, making it easier for both claimants and employers, giving them the option to file and respond online.

When businesses lay off workers it causes the number of initial claims to rise — an indicator of a weakening economy. As the economy recovers and layoffs drop, so do initial claims. Mass layoffs, or establishments having 50 or more initial claims in a five-week period, are usually a contributing factor to a drastic increase, and the

Unemployment Insurance program helps identify those layoffs to ensure that workers qualify for UI benefits.

Analysts measure the level of initial claims to provide a leading indicator of labor market conditions in an attempt to gain insightful information about the economy. Initial claims data is released on a weekly basis. Some have questioned whether measuring initial claims in this way is a good indicator. Initial claims can increase when individuals are laid off or when the percentage of individuals who are eligible for, claim and receive UI benefits rises. This can make it more difficult to compare these levels over extended periods of time. Over the latest recession, the UI program expanded and allowed more workers to be eligible for benefits, making analysts take a harder look at those indicators.

In the beginning of 2007, Utah's economy was still thriving with just over 6,300 initial claims for January; but by the start of 2009 that number had risen to over 20,000 claimants. The labor force obviously suffers during recessions, and as we moved further into this latest, roughly 80,000 jobs were taken from Utah's workers, and UI claims continued to rise. In the past three years, initial claims have made a slow but steady descent with a 9,343 monthly average in 2010, just under 8,000 in 2011 and this most recent year behind us with barely over 7,000. In Utah, most economists and analysts agree that these and other indicators will continue to show this downward trend.